JC Economics Tuition

**Unemployment – CSQ**

**Challenging times ahead**

# Extract 1: UK economic growth has slowed dramatically, latest survey suggests

Britain’s economy is losing momentum, knocked by weaker household spending and worries about the global outlook, according to the latest in a string of downbeat business surveys.

Business activity grew at the slowest pace for more than two years in Britain’s dominant services sector last month, according to the closely watched Markit CIPS PMI report. “Weakness is spreading from the struggling manufacturing sector, hitting transport and other industrial-related services in particular. There are also signs that consumers have become more cautious and are pulling back on their leisure spending, such as on restaurants and hotels,” said Chris Williamson, chief economist at survey compilers Markit.

“Wider business service sector confidence has meanwhile also been knocked by global economic worries and financial market jitters.” The pound weakened against the euro and the dollar after the report, which economists saw as providing further reason for the Bank of England to hold off raising interest rates from 0.5%.

Source: The Guardian 5 October 2015

**Table 1: Key Economic Indicators in 2015**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicators** | **UK** | **China** | **Singapore** |
| Nominal GDP growth (annual %) | 2.2 | 6.9 | 1.9 |
| Inflation rate | 0.05 | 1.4 | -0.5 |
| Exports as a % of GDP | 27.6% | 21.9% | 177.9% |
| Imports as a % of GDP | 29.2% | 18.4% | 152% |

Source: The World Bank Data

Why China depends on export demand? – china needs mass production – mass employment to contain their unemployment

Singapore depends on export demand for high valued production – high-valued employment – high wage job – higher SOL and high tax revenue

**Table 2: UK’s trade with selected countries in 2015**

|  |  |  |
| --- | --- | --- |
| **Countries** | **UK’s exports to (£) (Rank)** | **UK’s imports from (£) (Rank)** |
| United States | 96.4bn (1st) | 59.3bn (2nd) |
| China | 16.7bn (8th) | 38.4bn (3rd) |
| Japan | 10.5bn (11th) | 9.6bn (14th) |
| Germany | 48.5bn (2nd) | 70.4bn (1st) |
| Singapore | 7.1bn (17th) | 3.9bn (27th) |

Source: Office for National Statistics; www.visual.ons.gov.uk

# Extract 2: China pledges policy support to economy, reform in 2016

China will make its monetary policy more flexible and expand its budget deficit in 2016 to support a slowing economy, state media said on Monday. It cited top leaders who wrapped up the annual Central Economic Work Conference, a meeting keenly watched by investors for clues on policy priorities and main economic targets for the year ahead.

The government will take steps to expand aggregate demand next year. The People's Bank of China has cut interest rates six times since November last year and reduced banks' reserve requirement ratios (RRR), or the amount of cash that banks must set aside as reserves. The government has also stepped up spending on infrastructure projects and eased restrictions on home buying to boost the sluggish property market. Top leaders also pledged to push forward "supply-side reform" to help generate new growth engines, while tackling factory overcapacity and property inventories.

Source: Reuters, 21 December 2015

# Extract 3: Shedding light on slowing growth: What ails Singapore's economy?

# Singapore's small, trade-dependent economy is under the weather. While the country has not yet sunk into a full-blown recession, its fortunes are tied closely to those of the world economy and the outlook there is far from cheery. The Sunday Times looks at four key contributors to slowing growth in Singapore.

1. **Lacklustre Global Growth**

The world economy has yet to completely shake off the vestiges of the global financial crisis and continues to lack a strong growth driver. Singapore’s key trading partners have all been grappling with their own sets of challenges.

1. **Protracted Oil Price Slump**

World oil prices had been fairly stable from 2010 until mid-2014, at around US$110 a barrel. But they have almost halved since, plunging the oil and gas industry into a crippling slump. Companies in Singapore have not been spared the effects of this protracted downturn. More than two years of tumbling oil prices have wiped over US$24 billion (S$33.5 billion) from the market value of Keppel, Sembcorp Marine and other listed oil-services companies - or about two-thirds of their pre-July 2014 capitalisation.

Tens of thousands of jobs have been axed and some companies have defaulted on bond payments - sparking concerns over banks' exposure to the sector. The drag from this important sector is predicted to feed through to the rest of the economy.

1. **Shifting Trade Flows**

International trade has fallen to its lowest level since 2009, alongside lacklustre economic growth. But some economists say the slowdown is not merely cyclical, and lower levels of global trade might become the new normal.

This is because growth in developed economies like the United States is increasingly driven by services rather than the trade in goods. China is also becoming less exposed to international trade as it shifts away from an industrial-led growth model towards consumption and services. This means Chinese companies are increasingly sourcing from within the country, instead of importing. This trend could weigh on regional trade even in the long run - a gloomy prospect for Singapore, which depends not just on its own export but which also does a bustling trade in re-exports.

1. **Disruptive Change**

Prime Minister Lee Hsien Loong said in his National Day Rally speech in August that disruptive change is the "defining challenge" facing Singapore's economy.

Technology has transformed almost every industry - from food delivery to manufacturing. These developments have left both challenges and opportunities in their wake, most obviously in the labour market. There are thousands of jobs waiting to be filled in growing sectors like IT, precision engineering, education and healthcare. But many workers who have been laid off lack the necessary specialised skills required in these roles.

There is no easy solution to this - the ever-increasing pace of technological change means that jobs will more or less be in a constant state of flux. There is help available for laid-off workers - including the option to upgrade their skills with SkillsFuture, or programmes which help mid-career workers move to industries with the potential to grow. But companies and workers also have a part to play - both in terms of skills upgrading and shifting mindsets.

Source: The Straits Times, 30 October 2016

**Questions**

|  |  |  |
| --- | --- | --- |
| **(a)** | Using data from Table 1, |  |
|  | **(i)** | Compare the balance of trade position of UK, China and Singapore. | [2] |
|  |  |  |  |
|  | **(ii)** | Comment on the view that the Chinese economy performed well in 2015.  | [3] |
|  |  |  |  |
| **(b)** |  | Using data from Extract 1 and Table 2, explain and compare how ’weaker household spending and worries about the global outlook’ in the UK may impact the balance of trade for China and Singapore. | [4] |
|  |  |  |  |
| **(c)** | **(i)** | Explain what is meant by a budget deficit.  | [1] |
|  |  |  |  |
|  | **(ii)** | Using the concept of the circular flow of income, explain how ‘expanding its budget deficit’ (Extract 2) will affect the equilibrium level of national income in China.  | [4] |
|  |  |  |  |
| **(d)** | **(i)** | Assess whether ‘disruptive change’ (Extract 3) is the most significant cause of unemployment in Singapore.  | [8] |
|  |  |  |  |
|  | **(ii)** | Discuss the view that supply-side policy is the best way for the Singapore government to achieve low unemployment.  | [8] |
| [Total: 30] |
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